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New Tax Structure Deferred

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Report Highlights:

The Philippine Department of Finance (DOF) has agreed to defer to 2012 the adoption of a new tax structure on alcohol and tobacco products, following a consultation with industry players.

General Information:

The Philippine Department of Finance (DOF) has agreed to defer to 2012 the adoption of a new tax structure on alcohol and tobacco products, following a consultation with industry players.

According to Finance Undersecretary Gil S. Beltran, the DOF yielded to companies' request that a new law on "sin" taxes be implemented no sooner than 2012. Beltran said the industry feels that an earlier passage and implementation of such proposed laws in Congress would be the wrong time, considering the worldwide downturn.

Hard-pressed on raising more revenue to fund the government's economic stimulus program and deficit spending, the DOF has called on Congress to immediately pass a new law, banking on expected revenue of P20 billion (\$416 million) in the first year. The DOF's proposal will harmonize the excise tax rates so that there will be one single rate for all types of products.

Under the Sin Tax Law (Republic Act 9334)—or the indexation of excise tax on alcohol and tobacco products—passed in 2005, the levy alcohol and tobacco products will vary in rates depending on the price

classification. The tax rates will rise every two years starting 2005, at varying paces until 2011 when the cumulative increases reach 20 percent. In 2007, the levy went up by eight percent while in 2009, the excise tax should have increased by 7-8 percent on sin products.

In January, Finance Secretary Margarito B. Teves said a DOF proposal on rationalizing the sin taxes has, among similar proposed measures, the biggest revenue impact, translating to between P150 billion (\$3.1 billion) and P190 billion (\$1.8 billion) in the first four years.

Beltran explained that raising sin taxes would merely be a return to the level of rates implemented in the 1970s and 1980s, which is about 60 percent. "Right now our sin tax rates are the lowest in the world," he said. "The average sin tax rate in the region is 51 percent while ours is 28 percent." The official said that neighboring countries like Thailand and Vietnam are implementing rates of 80 percent and 65 percent, respectively. Beltran said that the proposed higher sin taxes can generate about P19 billion (\$395 million) in additional revenues in the first year. This may then go up to P42 billion (\$875 million) in the second year, and P57 billion (\$1.1 billion) in the third year.